

Borrowing Policy

Policy Type:	COUNCIL
Version:	2.0
Date Adopted:	1 March 2023
Service Unit	Finance
Directorate:	Customer Care and Advocacy
Review Date:	1 March 2027

1. Purpose

The purpose of this Borrowing Policy is to:

- Establish objectives and principles that outline when it is appropriate for Council to undertake borrowings within a sound financial management framework consistent with Section 104 of the Local Government Act 2020;
- Set out the manner in which Council may establish and manage a debt portfolio;
- To ensure Council's new borrowings comply with legislative requirements.

2. Definitions

MSC	Moorabool Shire Council
LGPRF	Local Government Performance Reporting Framework

3. Scope

This Policy applies to all Councillors and Council employees who make decisions regarding borrowings.

4. Non-Compliance

Violations of this Policy may lead to disciplinary action (including dismissal) and/or action by the relevant regulatory authorities.

5. Policy

5.1. Objectives

- To provide an alternative financing option for:
 - capital works projects that are of strategic significance (that could not otherwise be financed from ongoing income sources and provide benefit across generations); or
 - to meet Council's obligations in relation to future defined benefit superannuation calls, if required;
- To ensure the total amount of loan borrowings is sustainable in terms of ability to meet future repayments, budgetary constraints and established ratios;
- Manage any new borrowings in the context of optimising cash flow;

Borrowing Policy

- Develop and maintain a borrowing structure that achieves a balance between predictability and flexibility and aims to minimise borrowing costs and / or maximise the best value for our community.

5.2. Principals

The following principles have been set to ensure Council has a structured and disciplined approach to borrowing of funds that fit with a longer term financially sustainable framework.

- Borrowings are only to be used to finance items described in the Policy statement / objectives;
- Council will not borrow to fund recurrent capital works which is inclusive of acquisition, replacement, or renewal of assets (e.g., road resurfacing). This type of expenditure is to be funded from operating revenue streams;
- Council will not borrow to fund operating expenditure (other than large defined benefit superannuation calls);
- All borrowings will be considered as part of Council's long term financial planning using sound financial management principles (and fall within the borrowing ratios outlined in this Policy);
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will consider the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility;
- Council will explore opportunities to maximise business activity within the Shire and to provide best value to our community by inviting Community banks to participate in the debt procurement process;
- When entering into borrowing arrangements, Council will seek to minimise interest costs and/or maximise the best value for our community over the long term without introducing undue volatility in annual interest costs.

5.3. Ethics and Conflict of Interest

Officers shall refrain from personal activities that would conflict with the proper execution and management of Moorabool Shire Council's Borrowings. This includes activities that would impair the Officer's ability to make impartial decisions.

This Policy requires that Officers disclose to the Chief Executive Officer any conflict of interest that relates to Borrowings.

5.4. Borrowing Arrangements

- When entering into borrowing arrangements, Council will seek to minimise interest costs and or/ maximise the best value for our community over the long term without introducing undue volatility in annual interest costs.
- Council will consider the appropriateness of the various types of debt products available (including savings offset arrangements);
- The tenor of a loan will not be greater than the expected useful life of the asset being funded by the loan and will be managed strategically to stagger Council's debt maturity profile and reduce financial risk;

Borrowing Policy

- Council intends to maintain a repayment schedule consistent with “principal and interest” repayment calculations. In the case of interest only borrowings, this will require a cash reserve to be established to hold funds equivalent to principal repayments;
- Loan repayments will be made in a regular schedule, such as monthly, quarterly, semi-annually, or otherwise determined at the time of entering the loan agreement. Consideration should be given to efficiency of payment while minimising interest costs
- The nature of any borrowings (short or long term) and the interest rate (fixed or variable) will take into account the purpose of the loan and seek to balance interest rate exposure with refinancing flexibility.
- When making borrowing decisions, Council’s ongoing funding requirements will be considered, and borrowings will be aggregated into a single loan where practical.

5.5. Borrowings Ratios and Limits

Borrowings shall not be undertaken if the effect of such borrowings are projected to result in borrowing ratios greater than the maximum levels indicated in the table below.

Measure	Council’s Target Ratio
Loans and Borrowings Ratio (TCV) Interest bearing liabilities / own source revenue	0% to 60%
Interest Cover Ratio EBITDA : interest expenses	greater than 2:1

In addition, the Local Government Performance Reporting Framework (LGPRF) borrowing ratios and Treasury Corporation Victoria (TCV) guidelines will be projected in Council’s SRP and Annual Budget and reported in Council’s Annual Performance Report.

5.6. Determining Appropriate Lending Institution

Council will use bank debt and the Local Government Funding Vehicle or other aggregated funding streams as sources of debt funding. If bank debt is chosen as the appropriate source of funding, requests to appropriate lending institutions will be made in accordance with Council’s Procurement Policy inviting written quotations on Council’s borrowing requirements.

Written quotations must include the:

- Interest rate
- Term of loan
- Repayment intervals (monthly, quarterly, etc.)
- Repayment instalment amount
- Any applicable fees
- Loan break costs

Borrowing Policy

5.7. Leases

Leasing as a funding option may form part of Council's overall borrowing strategy.

There are two types of leases:

- An operating lease is where Council hires the asset for a set fee per period and at the end of the agreed time ownership of the asset remains with the lessor or the hire company. Council can terminate the lease at any time without incurring a penalty.
- A finance lease is where Council agrees to a series of payments and a residual value for the asset. There is a penalty for terminating the agreement prior to the finishing date. At the end of the period, it is expected that Council purchase the asset for the agreed residual value.

Council will periodically undertake a lease versus buy analysis for assets:

- Which diminish in value quickly (e.g., motor vehicles, IT and Gym equipment);
- Where assets will be disposed of in a short timeframe; and
- Where the lease option transfers responsibilities to the asset owner for maintenance and disposal.

Council will not consider Finance leases as an ownership option.

5.8. Reporting

Council will use the LGPRF and TCV guidelines to monitor and predict its borrowing requirements. These measures will be annually audited by the Victorian Auditor General and will be reported on in our Strategic Resource Plan and the Know Your Council website.

5.9. Management Framework

Borrowing decisions will be made annually as part of Council's Annual Budget process. Public comment is sought each year on Council's Budget and Strategic Resource Plan.

5.10. Responsibilities

- Council is responsible for approving borrowings by way of inclusion of all borrowings in the Annual Budget (or Amended Annual Budget where applicable).
- The Chief Executive has authority to accept loan offers, following the resolution of Council, so long as the requirements of this Policy are adhered to.
- The Chief Financial Officer is responsible for ensuring policies and procedures are followed when borrowing funds.

6. Related Legislation

- Local Government Act 2020
- MSC Councillors Code of Conduct

Borrowing Policy

- MSC Fraud Prevention Plan
- MSC Counselling & Disciplinary Action Policy
- MSC Employee, Volunteer & Contractor Code of Conduct

7. Council Plan Reference

Objective: Council that listens and adapts to the needs of our evolving communities

Context: Focus resources to deliver on our service promise in a sustainable way

8. Review

The Policy is reviewed when any of the following occur:

- The relevant legislation is amended or replaced
- Other circumstances as determined from time to time by a resolution of the Council
- Any other change or update which materially impacts and alters this Policy

As a minimum, this Policy will be reviewed every fourth year.